

## Business Value for Beginners

It is not easy to define the term “business value.” If you ask different entrepreneurs, they all have their own answer when it comes to business value.

### **What exactly is Business Value?**

The term business value refers to the benefits and value created by an innovation, a redesign, or a meaningful change or revision of a company’s processes, structure, culture, or strategy.

Business value refers not only to a company’s ability to generate long-term revenue, but also to its ability to create products, services, jobs, and returns on investment.

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### 1. Definition of Business Value

It is not easy to define business value (BV); if you ask different entrepreneurs, they all have their own answers.

The term business value refers to the benefit and value created by an innovation, a redesign, or a meaningful change or revision of a company's processes, structure, culture, or strategy. This value is important for the company's stakeholders.

Furthermore, business value refers not only to a company's ability to generate long-term revenue, but also to its ability to create products, services, jobs, and return on investment.

Business value can therefore manifest itself in many forms, e.g., higher revenues, lower costs, higher customer satisfaction, greater market share, and a better brand image.

A company's tangible assets are part of its business value. But your employees are also part of it. A qualified workforce, for example, contributes significantly to the overall value of the company.

An organization's network of social relationships also contributes to its BV. A strong network of connections is often valuable to an organization. It allows them to connect with other companies to sell more services and/or outsource non-core tasks, for example.

As you can see, the BV can be broadly defined. The concept of BV is quite subjective and depends on the needs of the company. Simply put, it encompasses the monetary and non-monetary values of a company.

Business value is the estimated health and well-being of a company through the measurement of concrete and abstract elements such as financial assets and benefits as well as employee, customer, supplier, and societal value.

## 2. **Measuring Business Value**

Just as important as the definition, however, is the question of how we measure business value.

As business value is very dynamic, it is not easy to capture and compare it.

Below you will find a list of elements that you can measure to determine the business value of your company.

- **Revenue**

One of the most important indicators for measuring business value is revenue. Revenue is a gross figure that indicates the total revenue generated by your organization. If your company's total revenue is increasing, this is often perceived as a positive sign.

- **Profitability**

Profitability is an accounting indicator that you can use to determine the financial success of your company. It is different from profit. Profit refers to revenue minus all costs. Profitability is the measured success in relation to the capital employed.

You can use profitability metrics to track initiatives to increase business efficiency. For example, your company may grow larger and increase its profits. However, the value of your business may not have improved because the profitability ratio has remained the same. So, it is an accurate metric that measures the impact of process optimization on your company's overall profit.

- **Customer Loyalty**

According to [sendpulse.com](https://sendpulse.com), customer loyalty is a *“measure of the likelihood that a customer will do business with a company or brand again. It is the result of customer experiences and the overall value of the goods or services customers have received from a company.”* Customer loyalty therefore measures the number of people who make repeat purchases from your company.

You may be wondering why customer loyalty is so important. When a customer is loyal to a product or service, price is often secondary. All they care about is that they receive the same quality and value. So, the more value you can create for your customers, the more loyal they will be. Customer loyalty is a good metric to measure business value.

- **Customer Retention Rate**

The customer retention rate measures the percentage of customers that a company has retained over a certain period. For a company that sells products or services, the customer retention rate is crucial for measuring user satisfaction. Dissatisfied users are more likely to look for alternatives that offer them greater benefits.

Therefore, it is a great metric to track the success of your product. If the customer retention rate drops, it is a clear sign that something is wrong or

that a competitor is offering a product or service that has a higher value for customers.

- **Market Share**

Finally, market share is important in determining a company's revenue share of total industry revenue. If your company is gaining market share and increasing its customer retention rate, you can be sure that it is providing the right value to its customers.

However, if your market share is falling, this may be a sign that a competitor is offering more or better value than your product or service.

### **3. Importance of Business Value**

Determining business value is important because it can help companies identify opportunities and opportunity costs when planning for future growth and meeting industry standards. Business value also helps companies analyze their strengths and weaknesses to set and achieve goals and improve the overall function, product delivery process, and customer satisfaction.

### **4. Business Value Management**

Business value management is about providing added value to customers while ensuring that this value translates into profits for the company.

Essentially, it is a holistic approach that leads to alignment between product management, marketing, sales, pricing, and other business processes.

The aim of business value management is to ensure sustainable and profitable sales growth.

Business value management involves the application of knowledge, skills, tools, and techniques to identify, map, and continuously generate value for

companies, their customers and other stakeholders through portfolios, programs, projects, operations, and general investment initiatives.

Below are the pillars that organizations should consider to continuously manage the value of their business:

- **Value governance:** responsible for defining the rules, guidelines, and governance model in connection with value management in the company.
- **Value streams:** a set of processes and activities that must be executed to effectively deliver value to the customer.
- **Value teams:** teams that focus on developing solutions (products, services, or both) that create added value for customers in line with the company's strategy. They must have technical, behavioral, and contextual competencies to be able to manage themselves.
- **Value technology:** corresponds to the automated set of processes and tools for collecting, processing, analyzing, distributing, and storing all information related to value management.

## 5. Importance of Business Value Management

Business value management enables companies to maximize their growth opportunities and keep pace with changing customer needs. They can easily adapt to respond to changing customer needs. The way to achieve this consists of the following components:

- **Optimize customer lifecycle value and retention**  
Higher customer loyalty is linked to higher customer lifetime value. When customers stay with a company for longer, they also spend more money.
- **Expanding the customer base and increasing sales**

Business value management enables companies to tap into new customer bases and thereby increase sales growth. Companies not only know what customers need, but also how much the product or service is worth to customers in monetary terms. This means that they can adjust their prices to maximize sales. In addition, they can target the most valuable customer by emphasizing the relevant features in their marketing efforts.

- **Creating a relative competitive advantage over other players in their industry**

Because they can better meet customer needs and better prioritize their efforts to create value, companies gain an edge over their competitors. The results are greater efficiency and lower overheads.

The specific advantages of business value management include, above all:

- Maximizing return on investment (ROI)
- Minimizing investment and total cost of ownership (TCO)
- Optimization of the use of the company's resources.
- Increased customer satisfaction
- Streamlined production and improved delivery of products and services
- Cost savings with minimal impact on the essential quality of products and services
- More careful identification of non-essential processes, projects, products, and services
- Drastic reduction of waste/rejects

## **6. Business Value Management Process**

The process of BV management consists of five main steps:

### **1) Value Discovery**

Value discovery is the process of assessing stakeholders' pain points, needs, wants, and preferences.

This phase usually includes market and competition research. Looking at what your competitors are offering, and their success, gives you an overview of the market and its trends. Customer research is essential to get more accurate information. This allows you to really find out what your customers value about the existing solutions and what is missing in their lives.

## **2) Value Delivery**

Value delivery consists of satisfying the needs of the stakeholders identified in the previous phase. This includes product or service development and implementation.

This stage sets stakeholders up for success, but you also need to make sure they know how to capitalize on the value of the product or service once they use it.

## **3) Value Realization**

Once you have determined and prepared the values, it is now time to realize them.

Value realization means that stakeholders begin to interact with the product or service. They experience its value and then fulfill their tasks. It is now your job to ensure that the stakeholders move forward on their journey.

## **4) Value Validation**

During value validation, you ensure that the actual outcome for the stakeholder is what they expected when they purchased the product or service.

## **5) Value Optimization**

The value optimization phase aims to maximize value for the customer. The information gained in the value validation phases is used to achieve the desired business results.



## **7. Conclusion**

Business value management enables companies to develop products and services that better meet the actual needs of stakeholders than those of the competition. They can also reach stakeholders better with targeted marketing campaigns and win more customers.

And this leads to better financial performance for your company.

However, providing consistent business value is no easy task.

Fortunately, there are many metrics you can use to determine business value, such as profitability, customer retention rate, or customer loyalty.

Focusing on the customer is one of the most important aspects of increasing business value.

Start by analyzing your customers' needs to develop the products or services they need and offer them lasting added value.

### **About advisio**

The advisio GmbH team consists of competent employees with many years of experience in the fields of business innovation and transformation, organizational project management, and governance of information and technology.

The use of frameworks and practices to innovate and transform organizations is one of our core competencies. Our specialists perform, upon request, advisory, consulting, and training services in business transformation, customer experience, business innovation, product management, value management, and change management. Together with its knowledge and experience, advisio accompanies its clients on their innovation and transformation journey for the digital era.

If you are not sure how to start the innovation and transformation process in your organization, advisio will help you determine it. Do not hesitate to make an appointment for a no-obligation consultation.

### **About the Autor**

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